

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3025-01
Bill No.: SB 812
Subject: Taxation and Revenue - Sales and Use; Prisons and Jails
Type: Original
Date: January 20, 2004

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
General Revenue	\$403,195	\$582,661	\$581,613
Total Estimated Net Effect on General Revenue Fund	\$403,195	\$582,661	\$581,613

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Various State Funds	\$212,605	\$254,765	\$254,765
Total Estimated Net Effect on Other State Funds	\$212,605	\$254,765	\$254,765

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Local Government	\$259,964	\$311,957	\$311,957

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Office of Administration, Budget and Planning (BAP)** assume this bill would require state sales tax to be collected on sales made at prison canteens and commissaries. BAP has no basis for estimating the value of sales at correctional institutions. BAP defers to the Department of Corrections for an estimate of the fiscal impact. This proposal would have no impact on the BAP.

Officials of the **Department of Conservation (MDC)** state this proposal specifics that sales at prison stores are subject to sales tax. MDC assumes this proposed legislation would have a positive effect on MDC funds, because of an increase in sales tax revenue. The amount of fiscal impact is unknown.

Officials of the **Department of Revenue (DOR)** assume that additional sales tax revenue will be collected. The Division of Taxation and Collection will register and process the collection of sales tax by prison stores. No additional administrative impact is expected by DOR.

Officials of the **Department of Elementary and Secondary Education** and the **Department of Natural Resources** assume this proposal could increase total state revenue. Both agencies defer to DOR or DOC for an estimate of the revenue impact.

ASSUMPTION (continued)

Officials of the **Department of Corrections (DOC)** assume this bill specifies that sales at prison stores are subject to sales tax.

Fund Shortfall: DOC canteens (prison stores) are operated in the institutions to provide a means for inmates to purchase their necessary hygiene products and items they may require to access the legal system, i.e., paper, envelopes, stamps and ink pens, etc. Funds generated from these sales that exceed the original purchase price of the item are currently turned around in the system and used for religious, educational, recreational and spiritual activities for the offenders in that same institution. Likewise these funds also provide for paying the wage of inmates and DOC staff who work in the Canteen operation.

Inmate Canteen Committee panels (which include representation from the inmate population) meet quarterly and determine their budget and the exact items needed at that institution to best serve the needs of the incarcerated offenders during that quarter. A payment of sales tax would directly reduce the canteen amount spent for offender services by the same amount as the sales tax. The minimum state-wide sales tax is 4.225%. A differing and additional percentage rate (above the base rate) would be charged in the separate counties where institutions are located throughout the state -- local/city/county rates. Reduction in spending (by at least the minimum 4.225% rate for non-food items) would directly reduce religious, educational, recreational and spiritual activities that are funded from canteen profits for the offender population. DOC is mandated to provide and maintain an up-to-date law library. This costly necessity is currently funded through canteen funds to aid in defraying GR expenditure.

Two-thirds of the 29,000-plus incarcerated offenders within DOC have a fixed monthly income of \$7.50 to \$8.50 (once they have earned their GED they are eligible for the extra \$1) to spend in the canteen as well as for repayment of debt to the state of Missouri as restitution, child support and/or for court fees. The DOC is court-ordered to provide the \$7.50 monthly stipend in order for them to have access to the court system and to purchase hygiene items. If they are paying sales tax, this monthly stipend is subject to challenge in court and a possible increase, therefore dramatically increasing the DOC's budget for wage and discharge costs.

Total FY03 Canteen sales totaled nearly \$21.7 million. Currently the tobacco excise taxes are paid by the Canteens on tobacco sales.

If this bill were enacted as statute, the canteen funds that would then be paid out in taxes would accordingly reduce the monies now spent to maintain the law library; provide religious, educational, recreational and spiritual activities; and pay both inmate and DOC staff who work in the canteens. General Revenue funds (as opposed to Canteen funds) would then be required to

ASSUMPTION (continued)

supplement the shortfall in order to continue to provide the necessary programs within the institutions. The amount noted below (\$478,643) is included in this fiscal note as a minimum annual amount. The additional unknown factor corresponds to the additional tax (at the various rates according to location that exceed the minimum state tax base of 4.225%) that currently cannot be estimated by the DOC.

Canteen Sales

Postage Stamps (non taxable)	\$896,345
Food & Drink (1% rate)	12,404,227
Other Sales (4.225%-plus rate)	<u>8,392,926</u>
(which include hygiene, laundry & tobacco products, books, etc.)	
Total	\$21,693,498

Tax Revenues from Above Sales

Postage Stamps (non taxable)	0
Food & Drink (1% rate)	124,042
Other Sales (4.225%-plus rate)	<u>354,601</u>
(which include hygiene, laundry & tobacco products, books, etc.)	
Total	\$478,643

Staff: DOC would require an additional FTE if this proposal were passed into law. An Accountant I would be responsible for the daily accounting and collection of state, county and city sales tax and the ensuing reporting to DOR. Expenditures to cover this FTE would encompass salary, one-time and ongoing expenses and state fringe benefits which include but are not limited to retirement, medical, deferred compensation, etc. This cost is calculated and included in this fiscal note as follows: \$46,591 the first year, \$47,229 the second and \$48,427 the third, increasing accordingly each year thereafter due to inflation.

Computer Modification: The DOC's point-of-sale canteen computerized inventory and cash register system would have to be enhanced to accommodate the collection of tax (both state and local) on sales of applicable items. Modifications of this type would be done by a vendor/provider outside the state system and would additionally require consultation services in order to implement. A training period for the canteen staff in the institutions would be necessary and policy and procedure would need to be reviewed and revised accordingly. The estimated fiscal impact for this modification is unknown but is estimated at \$75,000 and this expense is included in this fiscal note.

ASSUMPTION (continued)

Public Safety: Results from inmate unrest due to provisional cuts is always a potential threat. The DOC's trained staff works diligently daily to maintain a level of security to ensure public safety. The risk of jeopardy to this standard of security cannot be estimated in either monetary or human terms. This unknown potential cost cannot be estimated for inclusion in this fiscal note.

In summary the annual fiscal impact for the DOC is at minimum the amounts calculated above with the potential to be an ongoing significant amount due to the unknown variables also previously mentioned.

Oversight has, for fiscal note purposes only, changed the starting salary for the Accountant I to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research.

Oversight assumes the sales would remain relatively constant with the limited funds available for the prisoners to spend. Therefore, **Oversight** assumes the total revenue impact for this proposal would be \$992,198 for FY05, and \$1,190,637 for FY06 and FY07.

<u>FISCAL IMPACT - State Government</u>	FY 2005 (10 Mo.)	FY 2006	FY 2007
GENERAL REVENUE FUND			
<u>Income</u> - General Revenue			
Sales tax on prison store sales	\$519,929	\$623,915	\$623,915
<u>Cost</u> - Dept. of Corrections			
Personal Service	(\$21,874)	(\$26,904)	(\$27,577)
Fringe Benefits	(\$9,056)	(\$11,138)	(\$11,417)
Expense and Equipment	(\$10,804)	(\$3,212)	(\$3,308)
Programming	(\$75,000)	\$0	\$0
Total cost - DOC	<u>(\$116,734)</u>	<u>(\$41,254)</u>	<u>(\$42,302)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$403,195</u>	<u>\$582,661</u>	<u>\$581,613</u>

<u>FISCAL IMPACT - State Government</u>	FY 2005 (10 Mo.)	FY 2006	FY 2007
OTHER STATE FUNDS			
<u>Income</u> - School District Trust Fund			
Sales tax on prison store sales	\$173,310	\$207,972	\$207,972
<u>Income</u> - Conservation Fund			
Sales tax on prison store sales	\$21,664	\$25,996	\$25,996
<u>Income</u> - Parks and Soil Funds			
Sales tax on prison store sales	<u>\$17,331</u>	<u>\$20,797</u>	<u>\$20,797</u>
ESTIMATED NET EFFECT TO ALL OTHER STATE FUNDS	<u>\$212,305</u>	<u>\$254,765</u>	<u>\$254,765</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2005 (10 Mo.)	FY 2006	FY 2007
<u>Income</u> - Cities			
Sales tax on prison store sales	\$155,979	\$187,174	\$187,174
<u>Income</u> - Counties			
Sales tax on prison store sales	<u>\$103,986</u>	<u>\$124,783</u>	<u>\$124,783</u>
ESTIMATED NET EFFECT TO LOCAL GOVERNMENT	<u>\$259,964</u>	<u>\$311,957</u>	<u>\$311,957</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

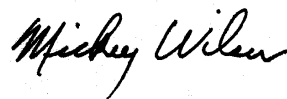
DESCRIPTION

This proposal clarifies and specifies that sales of food, meals, drinks and tangible personal property at prison canteens are subject to the statewide sales tax on those items. The existing sales tax provisions concerning collection and remittance of such taxes will apply to items made taxable by this proposal.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue
Office of Administration
Division of Budget and Planning
Department of Conservation
Department of Corrections
Department of Natural Resources
Department of Secondary and Elementary Education



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Director
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